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JUNE 1986

AUTOMOTIVE INDUSTRIES

SINCE 1895

Chevy's chief engineer with Corvette Indy

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Supplier Issue

JUNE 1986 VOLUME 166, No. 6

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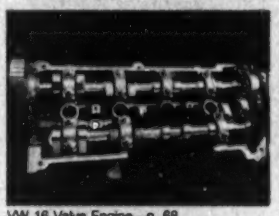

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Outlook: Heavy-Duty Survivors Battle Back

Manufacturers are rebounding slowly from the early '80s slump—but don't rule out a truckmaker shakeout or expect a quick upturn in ag.

by Douglas Williams

Comparing the massive downturn in the truck and heavy duty markets since 1980, to the troubles experienced by the passenger car business in the same time frame, may be a bit like likening a summer zephyr to a typhoon. By comparison, the car people had it easy.

Yet despite years of turbulence, the long-anticipated shakeout among truck and heavy duty manufacturers mostly hasn't happened. This has surprised Duncan Brodie, head of sales at General Motors Truck and Coach, who predicts that such a trend can't be far away. "I just want to be certain that we're not among those shaken out," Brodie says.

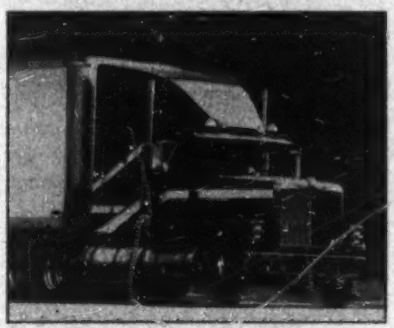
And the truckmakers' suffering pales next to what the ag and construction businesses have endured recently. Cummins Engine decided over 18 months ago that "we would be wise to plan on no growth in the North American heavy duty truck market and on declines in heavy construction and in the agricultural equipment market."

John Deere makes this observation in its current annual report: "All of our major competitors in farm machinery have in recent years either consolidated with a larger enterprise or received direct assistance from their host government."

Bullish On Cat

Given these dismal market conditions, how have the truck, ag and construction industries faced the unprecedented downturn of the past half decade? In a nutshell, the survivors have performed well—from better than acceptable to very good indeed.

Helen Walters, who follows Caterpillar and Deere for the Smith Barney brokerage firm acknowledges that Cat started cutting costs a little late. "But then," she says, "they charged forth in all directions to maintain their market share and augment their presence in the total market." Walters notes that Cat's cost reduction efforts are starting to show results.



A strong product range has helped Navistar International turn four straight quarters of black ink. Shown is the 9370 tractor, introed in '85.

Drexel Burnham's Jim McCann agrees. He says Caterpillar has "acknowledged they reacted a little slower than they should have. But given the competitive environment, they did pretty well and are going to be pretty competitive from now on."

John Deere "would be losing buckets full of money if they hadn't taken stringent cost cutting moves," says Smith Barney's Walters, who like most agricultural equipment analysts doesn't see an ag upturn for the foreseeable future. "It helps to skinny down, but if you get skinny and nobody's buying, you stay skinny," she says.

"Deere is in a position to expand their market share," notes Alex Blanton of Merill Lynch. He says that because Deere is the low-cost producer, they'll have large incremental profits as volume picks up. But Blanton adds that wheat and corn prices are very low, with little prospect of improvement there. To Blanton, most of Deere's problems are coming from Washington's farm programs.

When it comes to Caterpillar, Blanton's very bullish. He notes that in Cat's markets, some 60% of buyers are price sensitive, while Caterpillar dominates the other 40%. He adds that the resale value of Caterpillar equipment "is double anyone else's."

You can't talk heavy duty without including Cummins Engine, the Columbus, IN-based diesel manufacturer. Last July Cummins announced a company-wide personnel and cost reduction program that shocked both its competition and customers. Eight months later, however, those same people grudgingly acknowledged Cummins' move and timing were spot-on.

Cummins' Big Cuts

Cummins divides its recent past into three periods: 1979-80, when development began on a new line of engines in both traditional and lower horsepower ratings; 1981-83, when the recession forced the company to accept slower growth (Cummins increased its prices at only one-half the rate of inflation, and set a goal of reducing manpower in the base diesel engine business by 30%); and 1984-85, when Cummins realized it had to plan on no growth in the heavy truck market and declines in ag and construction. Tightening international

(Continued)

(primarily Japanese) competition caused the company to reduce prices.

Cummins now claims it has lowered prices by up to 40% on its three new engine families released in the last three years, while simultaneously cutting the price of its NH/NT engine series (the primary Class 8 truck engine) by 5%. The intent, says Cummins, "is to be price competitive with the Japanese now, in order to deny them market share."

Ups And Downs

This is how truck industry insiders are viewing the respective manufacturers:

Navistar has done reasonably well, for a company that hung on the edge of extinction for so long. Product lineup is considered strong, "one of the best in their history," according to one competitor. The company's been in the black now for four consecutive quarters (since selling the agricultural equipment business to Case/Tenneco). Competitors consider Navistar's winning the confidence of the Harvester dealer body back no mean feat; the positioning of the new name and image is a another major accomplishment.

Navistar's tie-up with Nissan Diesel (ND) is bringing it new product. This summer will see Navistar move aggressively into Classes 4 and 5 with the 400 and 500 low cab-forward ND-built trucks. And Navistar's 6.9-L V8 diesel that's used in Ford light trucks is at full production capacity; Ford has extended its contract through mid-1990.

GMC says it's increasing Class 8 production to 48 units a day, up from 32 since last September. Despite that move, *T&OHI* could find no one inside or out of GM at the recent International Truck Show in San Francisco who thinks the General's truckmakers are operating at a profit. Some industry observers consider the GM division to have "a tired product lineup," and surprisingly small clout in the market.

Also on the GM front, the wheels of the **DDA-Deere** diesel engine joint-venture have slowed down considerably, reportedly due to personnel and legal snags. Together, both companies would have a solid product fit.

Ford Truck is moving strongly, increasing market share and broadening its product line with its medium-duty "world truck," the Cargo. "I think they've got more truck focus than they've ever had before," says an admiring competitor of Ford.

Freightliner and **Volvo White** are two other companies that are commanding respect (see feature story this issue). Both are aggressive, and producing impressive new products.

Mack recently slipped to third place in the Class 8 market, behind Navistar and Freightliner. Confusion and concern about moving its main assembly operation south, to Winnsboro, SC are credited for some Mack problems. Others include some bad luck timing in bringing out the Ultraliner cabover just when the government tax regulations turned the market in another direction.

The Paccar duo—**Kenworth** and **Peterbilt**—reported a thin profit for the past year. Kenworth now has a genuine leading-edge product in its slick T600A conventional, and both truckmakers have a real plus for the ultra-hot Class 6 and 7 market with their Brazil-sourced, VW-M.A.N. mediums. Although Paccar closed its Kansas City plant, the West Coast-based truckmakers continue to be very successful in selling to leased truck operators.

Any way it's measured, the response of heavy duty manufacturers to the new global market has ranged from adequate to superior. ■

OEM MARKET SHARES (US CLASS 8 RETAIL SALES)

	1981	1982	1983	1984	1985
IH (Navistar)	24.9%	23.4%	24.6%	23.0%	21.4%
Mack	17.0	17.4	15.4	17.2	17.7
Freightliner	9.7	10.1	13.4	12.8	13.5
Ford	9.6	12.5	9.5	9.0	11.4
Kenworth	10.6	9.6	10.1	9.8	8.9
Peterbilt	7.1	7.8	10.2	10.0	8.9
Volvo White	4.9	6.2	6.6	6.9	8.8
GMC	13.2	12.1	9.8	10.9	8.7

Source: Volvo White

Selected Heavy-Duty Performance '85

(All Dollars in Millions)

Company	Sales	Net Profit	No. Employees
Caterpillar Tractor	$6,725	$198.0	56,000
Cummins Engine	2,146	50.4	20,000
Deere	4,000	24.3	42,000
Mack Trucks	2,000	(59.8)	13,700
Navistar International	3,457	105.4	17,000
Paccar	1,893	72.9	9,100

( )—Denotes loss

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AUGUST 1986

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AUGUST 1986 VOLUME 166, No. 8

CHILTON'S AUTOMOTIVE INDUSTRIES SINCE 1896

The Car That Just Won't Die

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Austin Rover slips back into the US market with a derivative car it hopes will rekindle fond memories of Connolly leather and Harris tweed.

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Fiat gets profitable in a tough market through a combination of automation, a best-selling small car and world class subsidiaries.

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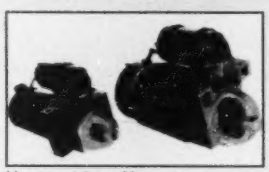
*Not found in all issues.



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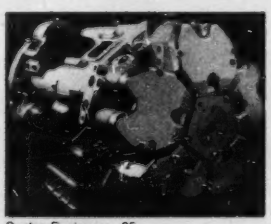

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AUTOMAKER QUARTERLY REPORT

Second quarter '86 results reflect the effect of price rises on Japanese market share and the continued tightening of the entire US auto arena.

by Tom O'Grady

Domestic Auto Sales (2nd Quarter Results)

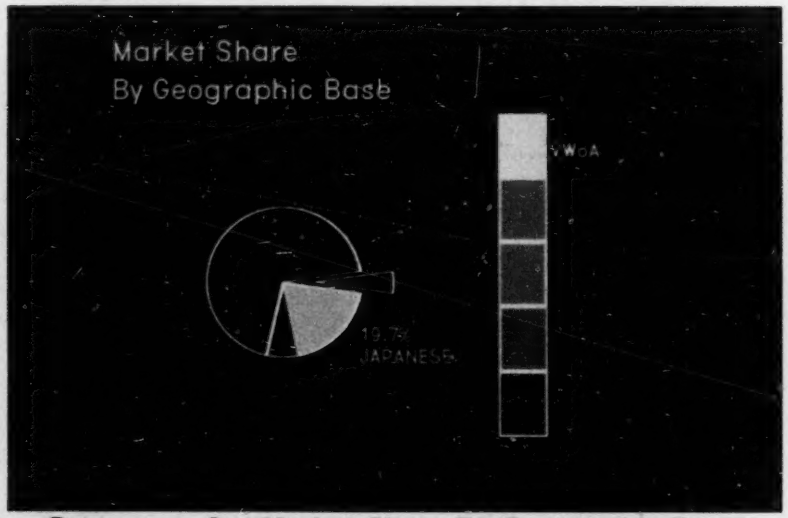
Carline	'86	'85	% Change
Celebrity	217,801	181,617	19.9%
Cavalier	207,243	232,584	(10.9%)
Escort	198,916	201,632	(1.4%)
Ciera	170,878	174,862	(2.3%)
Accord*	142,772	147,263	(3.1%)
Tempo	128,057	157,339	(18.6%)
Chevrolet	121,587	130,991	(7.2%)
Century	121,008	115,607	4.7%
Supreme	117,295	114,396	2.5%
Olds 88	116,110	110,836	4.8%

*—Includes imports
( )—Negative value

'86 Domestic Light Truck Quarterly Production

Truckline	4-'85	1-'86	2-'86
Chrysler Vans	29,260	35,643	29,344
. Sport Utility	5,761	6,407	6,663
....Miniwagon	60,684	75,881	77,051
Lt Conventional	53,167	5,660	34,370
Ford Aerostar	32,317	48,654	45,827
.....Bronco	13,257	13,373	15,407
..... Econoline	61,523	61,782	62,902
.....Ranger	58,287	81,879	86,950
..... Bronco II	30,660	34,147	31,862
.....Light Conv.	140,952	109,848	177,432
Chevy..Blazer	12,025	9,802	7,834
.....Suburban	12,271	17,766	17,450
..... P-Model	8,649	9,898	13,141

Truckline	4-'85	1-'86	2-'86
.....S-10	49,287	64,080	61,889
.....Blazer S	46,090	48,460	42,389
.....Astro	33,845	39,317	42,127
..... Van	48,987	50,348	43,383
Light Conventional	106,056	120,943	114,224
GMC . Jimmy	3,093	2,394	2,179
.... Suburban	4,746	6,000	6,398
..... P-Model	847	1,659	1,508
.....S-15	12,568	16,952	16,834
..... Jimmy S	5,596	12,588	11,539
..... Safari	8,284	9,314	10,394
..... Van	12,599	14,487	14,956
Light Conventional	35,411	40,225	39,658
Nissan. Pkup	29,908	18,463	46,222



Passenger Car Market Share By Geographic Base

Manufacturers	Total Sales	Total Market Share
American	3,876,923	68.74%
Japanese	1,108,845	19.66%
European	391,384	6.94%
US Built Imports (VWoA, Honda, NUMMI, Nissan, Renault)	263,052	4.66%
Total	5,640,204	100.00%

US Passenger Car Market Shares To Date

Manufacturer	Sales	% Total
General Motors	2,373,738	47.14%
Ford	1,006,493	19.99%
Chrysler	576,651	11.27%
Honda	306,439	6.09%
Toyota	277,780	5.52%
Nissan	263,682	5.24%
VW	110,551	2.20%
Subaru	91,463	1.82%
AMC/Renault	37,246	0.74%

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